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September 28, 2005

Beth O'Donnell, Executive Director
Public Service Commission
211 Sower Blvd
P.O. Box 615
Frankfort, KY 40602

SEP 29 2005

Re: Shelby Energy Cooperative, Inc. - Shelbyville Franchise
Case No. 97-231

Dear Ms. O'Donnell:

Enclosed please find eleven copies of the City of Shelbyville Electric Service Franchise to file with the Public Service Commission in the captioned case. The enclosed Franchise, dated October 29, 1997, replaces and supercedes the Franchise dated April 21, 1997, which is presently on file with the Commission. The new Franchise is for the correct length of time, namely 20 years. The old Franchise incorrectly cited that it was for a term of only three years.

I have enclosed an extra copy of the Franchise together with a self-addressed, stamped envelope, and request that a file-stamped copy be returned to me.

Please contact me if you have any questions.

Yours truly,

MATHIS, RIGGS & PRATHER, P.S.C.

BY: Donald T. Prather
Donald T. Prather

By: Prather

DTP/pm
Enclosures
Cc: Dudley Bottom, Jr.
Don/sec/stewart/PSC filing

CITY OF SHELBYVILLE
ELECTRIC SERVICE FRANCHISE

SEP 2 2006

The undersigned parties, City of Shelbyville and Shelby RECC, hereby enter into the following franchise agreement

Shelby Energy

SECTION 1. That Cooperative Inc., the purchaser and grantee of this non-exclusive electric franchise, its legal representatives, successors, and assigns, hereinafter called the "purchaser", be, and is, subject to the conditions hereinafter contained, hereby authorized, and empowered to acquire, purchase, construct, maintain and operate in and through this City, a system or works for the generation, distribution and transmission of electrical energy from points either within or without the corporate limits of this City, to this City and the inhabitants thereof, and from and through this City to persons, corporations and municipalities beyond the limits thereof, and for the sale of same for light, heat, power and other purposes; to erect and maintain poles, wires and other apparatus necessary or convenient for the operation of said system in, upon, across and along each and all of the streets, avenues, alleys and public places, within the present and future corporate limits of this City; to have and hold, as by law authorized, any and all real estate, easements, water and other rights necessary or convenient for said purpose; to use any and all such streets, avenues, alleys and public places while constructing or operating said electric system or works; and to cross any and all streets and streams in this City for the purpose of constructing, maintaining or extending such poles, wires and other apparatus as may be necessary or convenient for the proper distribution of electric energy in and through this City. If, after any pole has once been erected, the City Council shall order its removal to another location, the City shall pay the cost of making such relocation; except that, if the relocation is made necessary due to widening, regrading or reconstruction of a street or highway and the pole was originally erected in public right-of-way and is in public right-of-way immediately prior to the relocation, purchaser will pay the cost of the relocation. In any extensions of the present distribution system, additional poles shall be placed under the supervision of the City Council

SECTION 2. The purchaser shall indemnify, and save harmless the City from any and all damages, judgments, decrees, costs and expenses, including a reasonable attorney's fee, which the City may legally suffer or incur or which may be legally obtained against the City for or by reason of the use and occupation of any street, avenue, alley, or other public place in the City by the purchaser, pursuant to the terms of this franchise, or legally resulting from the exercise by the purchase of any of the privileges herein granted; and, if any claim shall be made or suit brought against the City for damages alleged to have been sustained by reason of the occupation of any street, avenue, alley or public place or the exercise of any privileges herein granted, by the purchaser, the

City shall immediately notify the purchaser in writing thereof, and the purchaser is hereby given the right and privilege to defend or assist in defending such suit, in the name of the City.

SECTION 3. The purchaser may furnish electricity for light, heat, power and any other purpose to any person or persons residing along or near the aforesaid streets, avenues, alleys and public places, and may make such lawful contract for the use thereof as may be agreed upon between the purchaser and the said person or persons.

SECTION 4. The purchaser shall extend its electric light or power lines and install additional equipment whenever there is assured to it from additional business to be derived therefrom a reasonable return upon the investment required to install such extension.

SECTION 5. The purchaser shall have the right to make and enforce reasonable rules and regulations necessary to the proper conduct of its business and protection of its property.

SECTION 6. The purchaser shall have the right to charge for electric service supplied within the City, rates that are reasonable and that are subject to regulation by the Public Service Commission of Kentucky.

SECTION 7. This franchise and all rights and privileges granted hereunder shall be in full force and effect for a period of twenty (20) years from and after the effective date of the franchise. At the effective date of this franchise, the prior electric service franchise of the City, which ends on November 17, 1997, shall no longer be in effect.

SECTION 8. This franchise may be transferred by the purchaser and the word "**purchaser**" whenever used in this franchise shall include and be taken to mean and apply also to all the successors and assigns of the purchaser.

SECTION 9. As additional consideration for the grant of this franchise, the purchaser shall pay to the City the following amounts:

A. For the first year after the effective date of the franchise, a sum equal to 2.6% of the gross revenues received by the purchaser for electric service provided within the corporate limits of the City to customers supplied under residential and commercial revenue classifications, and 1% of the gross revenues received by the purchaser for electric service provided within the corporate limits of the City to all other classification(s) of customers, including industrial customers:

B. For the second year after the effective date of the franchise, a sum equal to **2.47%** of the gross revenues received by the purchaser for electric service provided within the corporate limits of the City to customers supplied under residential and commercial revenue classifications, and 1.5% of the gross revenues received by the purchaser for electric service provided within the corporate limits of the city to all other classification(s) of customers, including industrial customers;

C. For the third, fourth ~~and~~ fifth year after the effective date of the franchise, a sum equal to **2.1%** of the gross revenues derived received by the purchaser for electric service provided within the corporate limits of the City from all classes of customers, including residential, commercial, and industrial.

D. Notwithstanding the foregoing rates, the City shall have the right to modify the amount of the franchise fee herein, provided that the City shall not modify the fee more than twice during the entire term of the franchise. The first time the City shall be permitted to modify the terms of the franchise shall be no sooner than five (5) years after the effective date of this franchise. At that time, the City may reduce the franchise fee, or the fee may be increased provided that such increase shall not be to a sum equal to more than **2.55%** of the gross revenue received by the purchasers for electric service provided within the corporate limits of the City from all classes of customers including residential, commercial and industrial. Additionally, the City shall also be permitted to modify the franchise fee herein one time after ten (10) years of the effective date of the franchise, provided that the fee may not be increased at that time above a sum equal to **3%** of the gross revenue received by the purchasers for electric service provided within the corporate limits of the City from all classes of customers including residential, commercial and industrial.

For purposes of calculating the amount of the franchise fee, the corporate limits of the City shall be the limits that exist at the time the gross revenue described herein is received by the purchaser, not the corporate limits as they exist as of the effective date of this Ordinance. It is the intention of the City that to the extent permitted by the Public Service Commission, should purchaser elect to pass the amount of this Franchise Fee directly to their customers, the rate applied to each customer's bill to collect such fee shall be the same for each class of customer.

The franchise fee shall be paid quarterly by the last working day of the second month after the preceding quarter.

SECTION 10. This franchise shall be nonexclusive.

ARTICLE III


It shall be the duty of the City Clerk, as soon as practicable after the introduction of this ordinance, to sell at public auction, to the highest and best bidder, the within franchise at the City Hall on some day to be fixed by her after advertising the proposed ordinance and the time and place of sale thereof at least once on a date not less than 8 nor more than 21 days before the date of sale in the Shelby Sentinel News, and in making said sale the City Clerk shall receive no bid for less amount than 50% of the total expense connected with the making of said sale she shall report her actions hereunder at a subsequent meeting of this Council. This Council reserves the right to reject any and all bids.

This Franchise shall be effective when signed by both the Franchisee and Mayor of the City of Shelbyville.

Date: 10-29-97

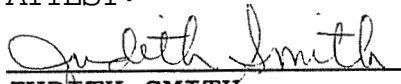


AUTHORIZED REPRESENTATIVE OF
SHELBY ENERGY COOPERATIVE INC.



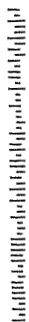
MAYOR, CITY OF SHELBYVILLE

ATTEST:



JUDITH SMITH
City Clerk/Treasurer

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